

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of

Federal-State Joint Board on  
Universal Service

CC Docket No. 96-45

To: The Commission

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REPLY COMMENTS OF PUERTO RICO TELEPHONE COMPANY

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May 7, 1996

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## **SUMMARY**

In these Reply Comments, the Puerto Rico Telephone Company urges the Commission to implement the universal service mandates of new Section 251 of the Communications Act by targeting assistance:

- to low-income subscribers; and
- to promote network expansion to low-income subscribers.

First, the Commission should target assistance to low-income individuals to increase subscribership. Specifically, local exchange carriers that serve individuals below the poverty line should receive universal service funds which are passed through to such consumers as a reduction in basic service rates. Such a mechanism will provide an incentive for those with the lowest rates of telephone service penetration to acquire and retain telephone service. In addition, PRTC supports free optional toll blocking service as part of the core universal service group for subscribers below the poverty line.

Second, the Commission should target a portion of universal service assistance to LECs providing first residential local exchange service to new subscribers below the poverty line. Such assistance will encourage LECs serving economically disadvantaged areas to expand their networks into unserved and underserved areas, by helping to defray the high costs associated with such expansion.

If the Commission does not target assistance to low-income subscribers and promote network expansion as proposed by PRTC, it

should ensure that LECs serving areas with unusually low penetration will continue to receive assistance comparable to today's level of assistance until they reach reasonable penetration levels.

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**REPLY COMMENTS OF PUERTO RICO TELEPHONE COMPANY**

Puerto Rico Telephone Company ("PRTC"), by its attorneys and pursuant to Section 1.415 of the Commission's Rules,<sup>1</sup> hereby submits its reply to comments on the Commission's Notice of Proposed Rulemaking ("NPRM") in the captioned proceeding.<sup>2</sup>

In these Reply Comments, PRTC urges the Commission to implement the universal service mandates of new Section 254 of the Communications Act<sup>3</sup> by targeting universal service assistance to local exchange carriers ("LECs") (1) that serve individuals below the poverty line and (2) that extend service to new subscribers below the poverty line. As explained below, LECs should receive universal service funds which they, in turn, pass through in large measure to eligible low-income subscribers as a reduction in local rates. LECs also should receive a network

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<sup>1</sup> 47 C.F.R. § 1.415.

<sup>2</sup> FCC 96-93, released March 8, 1996.

<sup>3</sup> Telecommunications Act of 1996 (the "1996 Act"), Pub. L. No. 104-104, 110 Stat. 56, § 101(a) (1996) (adding new Section 254 to be codified at 47 U.S.C. § 254).

extension payment for each new subscriber below the poverty line receiving first local residential service from the LEC. This payment will encourage network expansion to those most in need of local service by helping defray the cost. PRTC also urges the Commission to include free optional toll blocking service as part of the core universal service group for subscribers below the poverty line.

If the Commission does not target assistance as proposed by PRTC, it should maintain universal service assistance for LECs serving areas with unusually low telephone penetration levels. Until these LECs achieve reasonable penetration levels, they must receive universal service assistance that is at least comparable to today's assistance.

#### **I. PRTC'S UNIVERSAL SERVICE MISSION**

In 1974, when telephone service penetration was barely 25% in Puerto Rico, the Commonwealth of Puerto Rico acquired PRTC in order "to provide telephone service to every qualified applicant" in Puerto Rico.<sup>4</sup> Although PRTC has almost tripled telephone service penetration since 1974, telephone penetration of 72% in Puerto Rico remains extremely low relative to the U.S. average of

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<sup>4</sup> 27 LPRA § 403(a). PRTC is wholly owned by the Puerto Rico Telephone Authority ("PRTA"), a governmental instrumentality of the Commonwealth of Puerto Rico. Law Number 25 of the Commonwealth of Puerto Rico, approved May 6, 1974, established PRTA, a government corporation, and provided for the purchase of PRTC by PRTA. 27 LPRA § 404.

94%.<sup>5</sup> The map attached as Exhibit A shows, as of December 1995, the percentage of households with a telephone in each of Puerto Rico's exchange areas.<sup>6</sup>

Since the advent of universal service assistance, telephone service penetration in Puerto Rico has increased 52.9% (from 47.1% in 1984 to 72% in 1995). The graph attached as Exhibit B depicts the dramatic increase in penetration in Puerto Rico since 1984; this increase has been effected without an increase in local rates.<sup>7</sup> Without universal service assistance, the cost of this expansion would have forced residential service rates up, which surely would have slowed the growth in telephone

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<sup>5</sup> The penetration rates for Puerto Rico and the U.S. are for December and July 1995, respectively. Telephone Subscribership in the United States, FCC CCB Industry Analysis Division at 14 (Dec. 1995). Only 3 states have penetration rates below 90%: Mississippi, 88.6%; New Mexico, 88.3%; and South Carolina 89.4%. Monitoring Report, CC Docket No. 87-339 (May 1995) Table 1.2 at 27 ("1995 Monitoring Report").

<sup>6</sup> PRTC has two study areas -- one with approximately 160,000 lines, the other with approximately 1,044,700 lines. (The smaller study area includes the municipalities of Aibonito, Aguas Buenas, Caguas, Cayey, Cidra, Culebra, Guaynabo, Gurabo, Juncos, Las Piedras, San Lorenzo, and Vieques. The larger study area includes all other municipalities in Puerto Rico.) In December 1995, penetration varied by exchange area from 57% to 90% in the smaller area and from 46% to 90% in the larger study area.

PRTC has two study areas due to the historical development of telephone service in Puerto Rico. In the 1920s, the Commonwealth of Puerto Rico formed a telephone company to provide telephone service to the interior of the island because the independent telephone company was not doing so. The Commonwealth did not acquire the independent telephone company which provided telephone service to the remainder of the island (now PRTC) until 1974.

<sup>7</sup> Not only are rates stable but PRTC absorbs 60¢ of the monthly subscriber line charge for each customer.

subscribership and likely driven some less affluent subscribers off the network. Thus, universal service assistance has provided essential support for the expansion of telephone service in Puerto Rico. PRTC's experience suggests that universal service can be achieved only by providing subscribers access to affordable basic telephone service.

## **II. THE COMMISSION SHOULD TARGET A PORTION OF UNIVERSAL SERVICE ASSISTANCE TO LECs SERVING INDIVIDUALS BELOW THE POVERTY LINE**

### **A. The Significance of Subscriber Income Levels**

There is a "strong relationship between income and [residential telephone service] penetration."<sup>8</sup> "Poverty, or low income, is a primary predictor of nonsubscribership."<sup>9</sup> U.S. penetration rates range from 76.6% for households with annual income below \$5,000 to 99% for households with incomes exceeding \$50,000.<sup>10</sup> Thus, even if telephone service is technically available to potential subscribers who are below the poverty line, it is not practically available if the rate charged for the service is beyond their means.

The 1996 Telecommunications Act Conference Committee exhibited a special concern for less affluent consumers by specifically adding "'low-income consumers' to the list of

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<sup>8</sup> 1995 Monitoring Report at 14.

<sup>9</sup> Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms, Common Carrier Bureau (1996) at 16.

<sup>10</sup> Telephone Subscribership in the United States, FCC CCB Industry Analysis Division at 24 (Dec. 1995).



consumers to whom access to telecommunications and information services should be provided."<sup>11</sup> Indeed, Congress's first universal service principle is that "[q]uality services should be available at just, reasonable, and affordable rates."

§ 254(c)(b)(1) (emphasis added). This principle is reflected in the 1996 Act's directive that the Commission "ensure that universal service is available at rates that are just, reasonable, and affordable." § 254(i) (emphasis added). In determining the affordability of service, cost is only one factor; the other key factor, as the Commission's studies show, is the level of subscribers' income.

Basic telephone service remains a luxury for many residents of Puerto Rico. According to the 1990 census, 55.3% of families in Puerto Rico were living below the poverty line in 1989,<sup>12</sup> compared with 10% of all families nationwide.<sup>13</sup> Thus, the proportion of families below the poverty level in Puerto Rico is approximately five and one-half times that of the United States. Telephone service penetration in 1989 was 93.1% nationwide, but only 62.1% in Puerto Rico.<sup>14</sup>

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<sup>11</sup> H.R. Rep. No. 458, 104th Cong., 2d Sess. at 131 (1996).

<sup>12</sup> 1990 Census of Population and Housing, Summary Social, Economic, and Housing Characteristics, PUERTO RICO, 1990 CPH-5-53 (1993) at 191.

<sup>13</sup> 1990 Census Summary of Social, Economic, and Housing Characteristics, UNITED STATES, 1990 CPH-5-1 (1992) at 228.

<sup>14</sup> 1995 Monitoring Report at 24.

Given the difference in percentage of families below the poverty line, the penetration disparity is not surprising. 31% of U.S. households receiving food stamps have no telephone, 27.9% of U.S. households on welfare have no telephone, and 43.5% of U.S. households completely dependent on public assistance lack a telephone.<sup>15</sup> Thus, there is strong correlation between indicia of poverty and telephone subscribership. Despite the economic difficulties facing many families in Puerto Rico, extraordinary effort by PRTC has resulted in a penetration rate increase since 1989, from 62.1% to 72% today. Yet the cost of providing service in Puerto Rico is high<sup>16</sup> and PRTC is concerned that gains in

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<sup>15</sup> Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms, Common Carrier Bureau (1996) at 16.

<sup>16</sup> There are a number of reasons why loop cost is high in Puerto Rico:

- (1) a number of households that do not take service are passed by PRTC facilities (penetration is below 50% in some exchange areas, see Exhibit A); thus, PRTC generally cannot take full advantage of economies of scale associated with the higher penetration rates of similar size LECs;
  - (2) the topography of Puerto Rico is unusually rugged (a mountain chain runs nearly the entire length of the interior of the island, with peaks ranging from 1500 to greater than 3500 feet);
  - (3) the climate in Puerto Rico is especially wet and humid;
  - (4) the transportation cost for goods delivered to Puerto Rico generally is higher than for goods delivered to the U.S. mainland because (a) Puerto Rico is located in the Caribbean (1,000 air miles from Miami), and (b) U.S. law requires that goods shipped between the U.S. and Puerto Rico be carried only on U.S. flag ships which generally cost more than non-U.S. flag ships;
- (continued...)

subscribership could be lost if local rates rise as a result of an unanticipated decrease in universal service assistance.

**B. A Portion of Universal Service Assistance Should Be Distributed Based On Subscriber Income**

Many commenters urge the Commission to target assistance to subscribers least able to afford service. See, e.g., American Association of Retired Persons, Consumer Federation of America, and Consumers Union at 21 ("low-income households are the households most likely to drop off the network as a result of rising prices"); Ad Hoc Telecommunications Committee at 20 ("household income is a major factor of subscribership, and the need, if any, for universal service support"); California Department of Consumer Affairs at 13 ("the universal service subsidy should be targeted on consumers who would not have access to the networks without the subsidy"); Frontier Corporation at 5 ("the Joint Board should recommend that universal service support be carefully targeted to needy users"); Information Industry Association at 5 ("universal service should be targeted to those parts of the nation that are in greatest need"); NCTA at 14 ("anyone living below the poverty level"); New Jersey Department of the Treasury at 16 (noting that "poverty per se is a major barrier to participation" in the telecommunications market); TCI

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<sup>16</sup>(...continued)  
and

(5) certain goods imported to Puerto Rico, including most telephone equipment, are subject to a 6.6% excise tax placed on the importation of goods.

at 11 ("subsidies should be carefully targeted to those [consumers] in need of demonstrable support").

The Commission should "ensure that consumers 'in all regions of the nation' and at all income levels, including low-income consumers, enjoy affordable access to the range of services available to urban consumers generally," NPRM ¶ 6, by targeting universal service assistance to subscribers below the poverty line as follows:

- For each eligible subscriber,<sup>17</sup> a LEC would receive a universal service payment set at \$8 per month, for example.
- The LEC would pass through \$6 to eligible subscribers as a credit on their monthly bill. The pass through would be available for one residential telephone line per qualifying household.
- The LEC would retain \$2 per low-income subscriber (1) as an incentive to maximize the number of low-income subscribers serviced and (2) to offset the higher costs associated with serving the rural areas in which many low-income subscribers reside.

Assuming a benchmark monthly rate of \$15 for the core universal service group,<sup>18</sup> using the figures as explained

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<sup>17</sup> Eligibility would be easy to determine since the U.S. Department of Commerce, Bureau of the Census, annually establishes poverty line criteria based on family size. The preliminary estimate of the poverty threshold for a family of 3 in 1995, for example, is \$12,156. Preliminary Estimates of Poverty Thresholds in 1995, U.S. Department of Commerce, Bureau of the Census (Feb. 1, 1996).

<sup>18</sup> The U.S. average monthly residential rate in 1994 was \$13.34 for unlimited local calling (exclusive of the subscriber line charge, taxes and touch-tone charge). See Statistics of Communications Common Carriers at 340, Table 8.4, Average Monthly Residential Rates 1994 (1994/1995 ed.)

above,<sup>19</sup> the basic service rate for below poverty line subscribers would be \$9. A 40% decrease in the cost of basic service surely would increase subscribership among low-income consumers as well as mitigate network drop off.

The weighted average rate for PRTC's basic, unlimited local residential service (exclusive of the subscriber line charge, of which PRTC absorbs \$.60, and the touch-tone charge) is \$14.50. Thus, in Puerto Rico consumers eligible for the universal service assistance would have a weighted average service rate of \$8.50. A 41.4% drop in basic service rates in Puerto Rico undoubtedly would foster far greater telephone service penetration among Puerto Rico's less affluent citizens.

The methodology proposed has many important advantages. First and foremost, it targets funding to subscribers who are most in need of assistance and thus satisfies the statutory imperative that any "carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." § 254(e). The direct pass through of funds to subscribers prevents carriers from masking inefficiencies as well as preventing pass through to shareholders. See NCTA at 12 (noting that the use of virtual vouchers "could minimize carrier misuse

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<sup>19</sup> Figures used in the example have been selected based upon the average monthly residential rate and a subsidy amount that would reduce the rate sufficiently to attract low-income subscribers and keep them on the network. PRTC uses these particular figures to initiate discussion of its proposal and suggests that discussion should include a more precise determination of appropriate rate and subsidy figures.

of funding"); see also Association for Local Telephone Services at 14 (recommending that the telephone user should designate to which carrier the subsidy should flow because today's subsidies "flow generally to telephone companies without any identifiable connection between the monies received and the customer in need of support").

Second, it is competitively neutral since any eligible telecommunications carrier (i.e., carriers deemed "eligible carriers" by the state commission pursuant to new Section 214(e)(2) of the Communications Act) would receive funds for pass through to eligible low-income subscribers for whom it provides service. Eligibility would not be limited by "class" restrictions, for example, according to the underlying technology used to offer service (CMRS or wireline), the area of service (rural or urban), or classification of the service provider (incumbent LEC or new entrant).

Third, it would not require reliance on speculative, unproven cost models that will lead to an unpredictable distribution of support not necessarily targeted to areas of greatest need. See Comments of PRTC in CC Docket No. 80-286 at 6-15 (filed Oct. 10, 1995) (explaining why the Benchmark Costing Model is seriously flawed); see also Alaska Public Utilities Commission at 14-16; Cincinnati Bell at 9; Commonwealth of the Northern Mariana Islands at 17-18; Indiana Utility Regulatory Commission at 8. Instead, pass throughs could be authorized according to eligibility for federal aid programs. The universal

service administrator, therefore, could rely on independently collected data instead of carrier-provided cost data.

With the appropriate mechanisms — like limited access to computer records of social service agencies for eligibility confirmation — this program could be administered with minimal intrusion upon or inconvenience to subscribers. Federal or state assistance records could be used to identify eligible recipients, and the cost-savings would then be passed through automatically by the LEC. See Citizens for a Sound Economy Foundation at 7 (proposing that low-income recipients be identified according to food stamp eligibility or status of being below the poverty line); Florida Public Service Commission at 17 (proposing that low-income recipients be identified according to receipt of Earned Income Credit); LDDS Worldcom at 13 (proposing that low-income recipients be identified according to "means-testing"); Missouri Public Service Commission at 12 (proposing that low-income recipients be identified according to "an existing support mechanism so as to avoid creating cumbersome and expensive infrastructure"). Procedures currently used to qualify recipients for assistance under the Lifeline or Link-up program are another possible means for determining eligibility. See Frontier Corporation at 5.

**C. If The Commission Adopts A High Cost Model, It Must Account For Differences In Subscriber Income**

Under Section 254, the Commission must ensure that rates for local service are affordable and that all citizens are able to subscribe to basic telephone service. Thus, any allocation of universal service assistance should account for the differing affordability of service arising from subscriber income levels. If the Commission does employ a proxy model to allocate universal service assistance, the model must address telephone service affordability through the use of per capita income differentials.

If the Commission adopts one of the high-cost proxy models that it is evaluating (see NPRM ¶ 31), it should distribute universal service assistance based substantially on subscriber income levels. Any proxy model should also take into consideration the unique circumstances of areas such as Puerto Rico and the U.S. Virgin Islands. See n.16, supra. Information concerning subscriber income levels is readily available from the Bureau of the Census and could be incorporated easily into the Benchmark Costing or other proxy model.

**III. THE COMMISSION SHOULD TARGET A PORTION OF UNIVERSAL SERVICE ASSISTANCE TO PROMOTE NETWORK EXPANSION TO INDIVIDUALS BELOW THE POVERTY LINE**

In addition to fostering affordable telephone service (as required by Section 254(i)) by passing through universal service funds to subscribers below the poverty line, the Commission's universal service mechanisms also should promote network expansion to subscribers below the poverty line who often reside



in rural, insular and high-cost areas. Indeed, Congress exhibited specific concern for low-income as well as rural, insular and high-cost subscribers in Section 254(b)(3). See also § 254(h)(1) (regarding service for rural health care providers). The Commission, therefore, should encourage LECs to extend network facilities in such areas to subscribers below the poverty line to maximize telephone service penetration.

The Commission could stimulate network expansion through a universal service incentive payment to any eligible telecommunications carrier that provides first, residential local exchange service to a low-income subscriber. The payment could be set at a figure that reflects the difference between the cost of a new loop and embedded loop costs, for example \$200 per new first, residential line. The payment would be provided annually for so long as the subscriber is below the poverty line. The incremental cost of network expansion to reach new subscribers in areas of low penetration is much greater than the cost of adding subscribers in areas with higher penetration rates. For example, the national annual incremental cost per additional loop in 1993

was \$411.58,<sup>20</sup> while the annual embedded cost per loop was \$242.95, a difference of \$168.63.<sup>21</sup> Thus, the cost for additional local loops is 69.4% higher than the cost of existing local loops.

The network expansion incentive mechanism is particularly important to increase penetration in areas of low telephone service penetration (generally rural and economically disadvantaged areas). The assertion that "[s]ubscribership has evidently reached the point of diminishing returns," (Idaho Public Utility Commission at 4) fails to recognize areas like Puerto Rico with a penetration rate below 73%<sup>22</sup> and the Northern Mariana Islands, which reports an estimated penetration rate below 70% (Commonwealth of Northern Mariana Islands at 10).

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<sup>20</sup> This number is derived by finding the estimated annual increase in revenue requirement per additional local loop. See 1995 Monitoring Report, Tables 3.5 at 84 (Unseparated NTS Revenue Requirement) and Table 3.6 at 85 (Number of Loops).

	Year-end <u>1992</u>	Year-end <u>1993</u>	Increase <u>(1993-1992)</u>
1. Unseparated NTS Revenue Requirement	\$ 34,069,278,000	\$ 36,002,857,000	\$ 1,933,579,000
2. Number of Loops	143,492,443	148,190,420	4,697,977
3. Cost per Loop (1/2)	\$ 237.43	\$ 242.95	\$ 411.58

The estimated annual cost per incremental loop installed during 1993 is the quotient of the annual increase in Unseparated NTS Revenue Requirement (from 1992 to 1993) divided by the annual increase in Number of Loops (from 1992-1993).

<sup>21</sup> See supra n.19.

<sup>22</sup> PRTC, through significant investment in network expansion, is increasing penetration at approximately 4% per year.

The proposed network expansion support payment has several additional important advantages. First, this mechanism would encourage eligible telecommunications carriers to seek out and serve currently unserved low-income subscribers in unserved and underserved areas, thus helping fulfill the statutory principle that subscribers "in all regions of the Nation, including . . . those in rural, insular and high cost areas, should have access to telecommunications and information services . . . ."

§ 254(b)(3). Second, the mechanism would be competitively neutral since any eligible telecommunications carrier that provides first local service to a new residential subscriber below the poverty line would receive such payments. Third, the mechanism would not require the universal service administrator to rely on carrier provided cost data.

Finally, the network extension incentive comports "with the conferees' intent that all universal service support should be clearly identified. . . ." Conference Report at 131; see also § 254(e) (requiring universal service support to be explicit). Eligible telecommunications carriers would receive a fixed payment for extension based on the verifiable number of newly served subscribers. For these reasons, the Commission should adopt a network extension incentive as proposed by PRTC.

#### **IV. THE COMMISSION SHOULD INCLUDE TOLL BLOCKING SERVICE IN THE CORE UNIVERSAL SERVICE GROUP TO SUBSCRIBERS WHO ARE BELOW THE POVERTY LINE**

Nearly all parties commenting on the NPRM agree that the core universal service group should include: (1) voice grade

access to the public switched telephone network capable of originating and terminating any type of call, (2) touch-tone service, (3) single-party service, (4) access to emergency services, and (5) access to operator services and operator information services. See, e.g., 360° Communications Company at 2-3; Ameritech at 6; AT&T at 12; Bell South at 5-6; Bell Atlantic at 7; General Communication, Inc. at 5; Illinois Commerce Commission at 3; Southwestern Bell Telephone Company at 8; Time Warner at 4.

A number of parties, including PRTC, urged the Commission to include two additional services in the core group. First, just as any PRTC subscriber can contact the company at no cost, all residential subscribers should be able to contact their local exchange carrier free of charge. See NPRM ¶ 53 (noting that "such access may be needed . . . to ensure that universal service is available at affordable rates"); see also American Association of Retired Persons, Consumer Federation of America, and Consumers Union at 22; New Jersey Department of the Treasury at 18; Texas Office Of Public Utility Counsel at 17.

Second, listing in the white pages directory should be a core service. See AT&T at 12; Bell Atlantic at 7; Florida Public Service Commission at 7; Illinois Commerce Commission at 5; Indiana Utility Regulatory Commission at 3; New York Department of Public Service at 12; Rural Utilities Service at 11; South Carolina Public Service Commission at 3; Southwestern Bell Telephone Company at 8; Texas Office of Public Utility Counsel at

16; Time Warner at 14; USTA at 13; Virginia State Corporation Commission at 2; Wyoming Public Service Commission at 7. PRTC believes that access to other network subscribers should not be impeded by the expense of a directory assistance call.

Upon further consideration and review of the comments in this proceeding, PRTC now urges the Commission to include free optional toll blocking service as a core universal service to those subscribers who are below the poverty line. The service should be free so there will be no disincentive to use it. The service should be optional since some low-income subscribers may not require toll blocking as a prerequisite to subscription.

Some low-income individuals, who otherwise would consider subscribing to basic residential service, do not subscribe because they fear the financial consequences of bills for toll and 900 service calls. See Missouri Public Service Commission at 6-7 ("Studies suggest that a large share of people currently lacking phone service were disconnected due to unpaid phone bills. Toll blocking might permit such people to regain telephone service, . . . [and] help new telephone subscribers avoid such problems."); Ohio Consumer's Counsel at 16 ("Numerous studies have shown that uncontrollable long distance bills . . . are a major source of low-income nonsubscribership."). If such fears could be allayed through optional free toll blocking service, further gains in subscribership are possible. See Pacific Telesis Group at 22 ("this type of service could significantly increase subscribership rates in the long-term").

As Time Warner notes, at 13, "voluntary long-distance blocking service would . . . protect low-income consumers from incurring charges that they may not be able to pay . . . ." See also California Department of Consumer Affairs at 23; General Service Administration at 8; LDDS Worldcom at 8-9.

Toll blocking service meets the Section 254(c)(1) criteria: implemented as a foil to pay per call service abuse, it is widely available (§ 254(c)(1)(C)); it is consistent with the public interest as it will increase telephone service subscribership (§ 254(c)(1)(D)); and by affording more individuals ready access to police, fire and medical services (by increasing subscribership), it will enhance public safety (§ 254(c)(1)(A)). For these reasons, optional free toll blocking service should be part of the core universal service group for subscribers below the poverty line.

**V. IF THE COMMISSION DOES NOT TARGET UNIVERSAL SERVICE ASSISTANCE TO ASSIST LOW-INCOME SUBSCRIBERS AND TO PROMOTE NETWORK EXPANSION, IT MUST MAINTAIN ASSISTANCE TO LECs SERVING AREAS HAVING LOW TELEPHONE SERVICE PENETRATION**

Puerto Rico has made great strides in increasing telephone penetration while keeping rates stable. See Exhibit B. Yet its 72% telephone penetration is 22 percentage points below the U.S. average of 94%. Reduction or withdrawal of universal service support under these circumstances could reverse the gains in subscribership that have been made and would be inconsistent with

Section 254 and the fundamental purpose of the Communications Act.<sup>23</sup>

If the Commission does not target universal service assistance to low-income subscribers and encourage network expansion as proposed by PRTC, it must adopt a rule that assistance will not be reduced from current levels to LECs serving areas where telephone service penetration rates are unusually low. The Commission's authority for ensuring adequate universal service assistance to areas of low penetration is found in Section 254(b)(7), which directs the Commission to employ such principles as it "determine[s] are necessary and appropriate for the protection of the public interest, convenience, and necessity and [which] are consistent with" the 1996 Act.

PRTC reiterates that low penetration LECs should receive assistance in accordance with the following principles:

- **PRINCIPLE 1** -- LECs serving areas with a penetration rate below 85% should receive assistance comparable to that received under today's cost-based allocation scheme.
- **PRINCIPLE 2** -- If a low-penetration LEC receives less assistance under the new methodology adopted by the Commission, it should also receive a supplemental payment equal to the difference between the amount determined under the new methodology and the amount received in a specified base-year period (for example, 1996).

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<sup>23</sup> See 47 U.S.C. § 151 (the Commission should "make available, so far as possible, to all the people of the United States without discrimination on the basis of race, color, religion, national origin, or sex a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges . . . .").

- **PRINCIPLE 3** -- Supplemental payments should be indexed so that a low-penetration LEC would receive the greater of:
  - (1) assistance calculated under the new allocation model; or
  - (2) the amount of assistance received by the LEC in the base-year period, with that amount increased annually by the percentage increase in the number of access lines in the study area in the prior year.
- **PRINCIPLE 4** -- As penetration passes 85%, assistance would be gradually phased down for low-penetration LECs to the level provided under the new allocation methodology.

By ensuring that LECs serving areas of low penetration continue to receive assistance, the Commission would maximize the positive impact of assistance. The social benefit of each dollar of assistance to a LEC serving an area with a penetration rate of 60% for example, logically would be greater than that to a LEC serving an area of 90% penetration.

## **VI. CONCLUSION**

For the Commission to further the objectives of universal service in this proceeding, it must target assistance to those subscribers and LECs most in need of such assistance. The Commission, therefore, should direct universal service assistance to LECs serving individuals below the poverty line for pass through to those subscribers. Second, the Commission should target a portion of universal service assistance to promote network expansion to subscribers below the poverty line. In addition, the core universal service group should include free

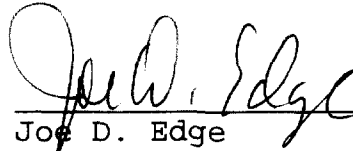


optional toll blocking service for subscribers below the poverty line.

If the Commission does not target assistance to low-income subscribers and promote network expansion as proposed by PRTC, it should ensure that LECs serving areas with unusually low penetration continue to receive assistance comparable to today's level of assistance until they reach reasonable penetration levels.

May 7, 1996

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Joe D. Edge", is written over a horizontal line.

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